Consumer Financial Protection Bureau

February 5, 2018

Wayne Johnson
U. S. Department of Education
Office of Federal Student Aid
Chief Strategy and Transformation Officer
830 First Street, NE
Washington, D.C. 20002

Dear Dr. Johnson,

Per your request, attached please find share an unpublished analysis prepared by the Bureau's Office for Students and Young Consumers about student use of college-sponsored deposit and prepaid accounts. We are pleased to provide this analysis of publicly available information in furtherance of Federal Student Aid's work on the development of the Next Gen Payment Card Program Pilot.

If you have additional questions, please do not hesitate to reach out to my office or Rich Williams in the Office for Students and Young Consumers at Richard.williams@cfpb.gov.

Sincerely,

Cheryl Parker Rose
Assistant Director, Office of Intergovernmental Affairs

1. Overview

The Department of Education has taken significant steps to promote transparency and protect students using college-sponsored deposit and prepaid accounts.[1] In 2015, the Department finalized a new "Cash Management" regulation that increases the transparency of the college-sponsored deposit and prepaid account marketplace and establishes new minimum protections for students.[2] The rule also requires most colleges to ensure that marketing agreements are "not inconsistent with the best financial interests" of students.[3]

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[1] *See* U.S. Dep't of Education, *U.S. Department of Education Announces Two Final Regulations to Protect Students and Help Borrowers* (Oct. 27, 2015), https://www.ed.gov/news/press-releases/us-department-education-announces-two-final-regulations-protect-students-and-help-borrowers.

[2] *See* U.S. Dep't of Education, *Program Integrity and Improvement* (final rule), 80 Fed. Reg. 67126-67127 (Oct. 30, 2015), http://www.gpo.gov/fdsys/pkg/FR-2015-10-30/pdf/2015-27145.pdf.

[3] Colleges must ensure accounts marketed under agreements are "not inconsistent with the best financial interests of the students opening them." A college may satisfy this requirement if, for example, it conducts "reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the agreements are, considered as a whole, consistent with or below prevailing market rates." *See* 34 C.F.R. §§ 668.164(e)(2)(ix), (f)(4)(viii); *see also* U.S. Dep't of Education, *Cash Management - Frequently Asked Questions* (May 2016), https://ifap.ed.gov/CashManagementInfo/CMFAQ.html ("Institutions that have [an agreement] that meets the applicable credit balance recipient thresholds will have to establish and evaluate the contracts governing those arrangements in light of the best financial interests of students as discussed in the regulations. This means that an institution must document that the account fees are at or below market rates and that the institution can terminate

Beginning on September 1, 2017, the vast majority of colleges with marketing agreements for deposit or prepaid accounts are required to publish information on the use of these accounts by students, the extent to which students pay fees, and any financial compensation that is part of these agreements.[4] Colleges that are required to report student account information must update this information annually and provide links to access the updated data to the Secretary of Education.[5]

The Bureau performed a review of the newly reported financial information and of other publicly available information related to marketing agreements for college-sponsored deposit and prepaid accounts.[6] Our analysis finds that most students at most colleges are able to use their college-sponsored account fee-free; however, certain account fees and providers still pose risks to student consumers.

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the contractual arrangement based on student complaints or a determination that the fees are not consistent with or are above prevailing market rates.").

4 Certain colleges must only disclose the required information if an average of 500 or more of its students have a Title IV credit balance, or an average of five percent or more of the students enrolled at the institution had a Title IV credit balance. *See* 34 C.F.R. §§ 668.164(e)(2)(vii), (f)(2)(ii), (f)(4)(iv).

5 *Id.*; *see also*, U.S. Dep't of Education, *Cash Management Electronic Announcement #7: Tier One and Tier Two Contract Data Reporting Format* (June 16, 2017), https://ifap.ed.gov/eannouncements/061617CashMgmtTier1andTier2ContractDataReportingFormat.html.

6 This analysis builds on previous work by the Office for Students and Young Consumers to analyze and increase transparency in the campus banking marketplace and assist colleges seeking to identify safer and more affordable prepaid and deposit accounts for their students. *See, e.g.,* Consumer Financial Protection Bureau, *Student Banking Reports to Congress* (Dec. 2016), https://www.consumerfinance.gov/data-research/student-banking/student-banking-reports-congress; Consumer Financial Protection Bureau, *Safe Student Account Toolkit* (Dec. 2015), http://files.consumerfinance.gov/f/201512_cfpb_safe-student-account-toolkit.pdf.

1.1 Methodology

1.1.1 Colleges with agreements

The Bureau began this review by compiling a list of colleges with known marketing agreements. On September 26, 2017, the Office for Students and Young Consumers drew from the Department of Education's centralized database of nearly 600 marketing agreements between colleges and account providers.[7] As noted in the Bureau's 2016 Student Banking report, not all colleges with marketing agreements may be listed in the Department of Education's database, particularly if a college submitted information about its agreements after the Department updated its database.[8] Based on this insight, the Bureau took additional steps to supplement the inventory of active agreements already contained in the Department of Education's centralized database for the following analysis. For example, the Bureau identified a number of additional colleges that have disclosed active marketing agreements that were not included in the centralized database by cross-referencing the database of colleges with agreements separately identified by financial institutions and other vendors participating in campus card programs.[9] In addition, the Bureau performed supplemental searches for additional active agreements on a

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[7] *See* U.S. Dep't of Education, *Title IV Institutions Reporting Cash Management Contracts* (accessed Sept. 26, 2017), https://studentaid.ed.gov/sa/about/data-center/school/cash-management-contracts.

[8] *See, e.g.,* Consumer Financial Protection Bureau, *Student banking* (Dec. 2016), https://www.consumerfinance.gov/documents/1685/201612_cfpb_StudentBankingReport2016.pdf.

[9] Colleges report required information on their websites and provide the Department of Education a link to the reported information for inclusion in the centralized database of agreements. Several account providers independently list colleges where they maintain agreements. Colleges listed on an account provider website may or may not also be included in the Department of Education's centralized database. *See, e.g.*, Wells Fargo, Wells Fargo Campus Card Program (accessed Oct. 2, 2017), https://www.wellsfargo.com/debit-card/campus-card/schools; PNC, Virtual Wallet Student for Student Banking with PNC (accessed Sept. 25, 2017), https://www.pnc.com/en/personal-banking/banking/student-banking.html.

commercial internet search engine, combining additional keywords in conjunction with the issuer and institution, including "668.164 disclosure," "Cash Management," and "Banking Services Agreement." The Bureau believes these search methods identify the majority of colleges that with college-sponsored account agreements, however, as discussed in the limitations section, it is difficult to know the full universe of agreements.[10]

1.1.2 Reported data

For each college included in the Bureau's inventory of colleges with active agreements, the Bureau searched that college's website for reported information on account volumes, account fees, and compensation paid to the college. Pursuant to federal disclosure requirements, colleges must publish five data points for each active agreement, including:

Accountholders and fees:

- The number of students who had financial accounts under the agreement at any time during the most recently completed award year (July 1, 2016 to June 30, 2017),[11]
- Average (mean) costs paid by those accountholders during the period,[12]

[10] A 2014 analysis by the Government Accountability Office estimated 852 of the 7,559 colleges participating in the federal student aid programs as of July 2013 had agreements to market college-sponsored accounts. Because these colleges were generally larger, their student populations represented about 40 percent of total enrollment, or about 10 million students out of the 25.5 million students at colleges participating in federal student aid programs. *See* U.S. Gov't Accountability Office, GAO-14-91, *College Debit Cards: Attention Needed to Address ATM Access, Student Choice, and Transparency,* at 29-30 (Feb. 2014), http://www.gao.gov/assets/670/660919.pdf.

[11] For any year in which the institution's enrolled students open 30 or more financial accounts under their arrangement. *See* 34 C.F.R. §§ 668.164(e)(2)(vii)(B), (f)(2)(ii), (f)(4)(iv)(B).

[12] *Id.*

- Median costs paid by those accountholders during the period.[13]

Compensation:

- Total monetary compensation for the most recently completed award year paid or received by the parties under the terms of the contract.[14]

- Total non-monetary compensation provided or received by the parties under the terms of the contract during the period.[15]

The Bureau's analysis only includes data from colleges where all five data points were available on the college website.[16] The Bureau identified complete information for 573 colleges, including 535 colleges listed in the Department of Education's centralized database, 28 colleges identified using a keyword search, and an additional 10 colleges identified by financial institutions and other vendors as participating in a campus card program.[17]

1.1.3 Limitations

The Bureau notes that colleges are only required to report information related to an active marketing agreement during the 2016-2017 Award Year. As 2017 is the first year during which

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[13] *Id.*

[14] *See* 34 C.F.R. §§ 668.164(e)(2)(vii)(A), (f)(2)(ii), (f)(4)(iv)(A).

[15] *Id.*

[16] Four colleges disclosed consideration paid or received, but noted they had less than 30 accountholders. For these colleges, the Bureau recorded account fees for those schools as $0. Additionally, some colleges with multiple campuses aggregated their financial information into one disclosure. In these instances, the Bureau included the aggregate reported information once.

[17] *See supra* note 10.

data has been publicly available, these disclosures do not permit any analysis of year-over-year trends or changes. The limits of the data points disclosed pursuant to the federal disclosure requirements do not permit a detailed analysis of the distribution of fees across a population of student accountholders. Additionally, the reported consideration paid or received by colleges in any individual award year may not accurately reflect the annualized financial compensation received by the college under the lifetime of an agreement, as some marketing agreements arrange for a large up-front cash payment from the financial institution to the college when the agreement is consummated. The Bureau's analysis is also limited to those colleges with active agreements the Bureau could identify and by the accuracy of information reported by those colleges.[18]

Despite limitations in the data, the following analysis can offer valuable insight as Federal Student Aid considers whether sponsored accounts are "not inconsistent with the best financial interests" of their students by providing an opportunity to compare average fees paid by students using sponsored accounts offered by different account providers.[19] The following analysis also offers insight into the share of fees paid by a subset of student accountholders. An analysis of compensation paid to colleges by account providers also gives stakeholders the opportunity to compare the financial incentives governing agreements across account providers.

1.2 Findings

The Bureau's review identified 573 colleges with marketing agreements that have reported complete details on their marketing arrangements, including information on fees paid by accountholders using sponsored accounts. The Bureau's analysis shows that 1,322,000 students

[18] *Id*.

[19] *See supra* note 3.

attending these colleges identified in this study had open and active accounts with their college's account provider during the 2016-2017 Academic Year.[20] Fourteen companies, including large and small banks, specialty nonbank providers, and credit unions (collectively "account providers") provided sponsored accounts to these students during this period.

1.2.1 Account providers

The Bureau found that the number of accountholders and the average account fees paid by those accountholders vary greatly between account providers.[21] Colleges identified 14 account providers as offering sponsored accounts during the 2016-2017 Academic Year. Weighted average account fees paid by students to account providers ranged from $0 to $46.99 over the full 12-month reporting period.[22] Collectively, students using accounts at colleges identified in this study paid $27,600,000 in account fees.[23]

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[20] This time period covers July 1, 2016 to June 30, 2017. *See supra* note 5.

[21] Aggregate fee data by account provider offers one way to compare account fees between college-sponsored accounts, particularly as the portion of students using accounts at any individual college and the associated fee data reported can vary greatly. Additionally, the Bureau's 2016 Campus Banking report found most account providers offered the same account terms and conditions between college partners. However, it is possible certain account terms could be different if required by state law or required by an account provider's college partner. *See supra* note 8.

[22] The Bureau derived an estimate of the weighted average by comparing the number of active accounts and the average costs paid by those accountholders during the reporting period as reported by individual colleges.

[23] *Id*.

TABLE 1: ACCOUNT PROVIDERS IDENTIFIED BY COLLEGES

Account provider	Active accounts	Average fee per active account per 12-month period[24]	Compensation paid to colleges[25]	Colleges identified with complete data[26]
BankMobile	807,727	$12.12	$0	402
Wells Fargo	304,227	$46.99	$2,127,554	30
PNC Bank	95,376	$15.84	$7,562,570	34
TCF National Bank	31,793	$27.27	$1,690,976	1
BlackBoard	30,099	$7.52	$0	17
U.S. Bank	20,191	$26.47	$3,174,804	41
Financial Payments, LP	10,493	$9.52	$0	9

[24] *Id.*

[25] Colleges are required to report both monetary and non-monetary compensation, paid, or received by the parties under the terms of the contract. For the purposes of this table, compensation paid to colleges is the net of all compensation paid or received by colleges under the agreement for the reporting period and aggregated for each account provider. In general, the Bureau observes account providers that provide compensation to colleges do so for all their college partners, although the amount of compensation paid to colleges may vary.

[26] Colleges where complete disclosures about account fees and compensation could not be found were not included in this analysis. Therefore the number of colleges identified in this column does not reflect the complete number of colleges with marketing agreements for deposit or prepaid accounts.

Account provider	Active accounts	Average fee per active account per 12-month period[24]	Compensation paid to colleges[25]	Colleges identified with complete data[26]
Hills Bank and Trust Company	10,409	$13.76	$1,817,899	1
Tuition Management Systems	7,095	$10.89	$0	26
University of Kentucky Federal Credit Union	2,570	$37.00	$250,000	1
ECSI/Touchnet (Discover)	1,201	$0.35	$0	8
Fifth Third Bank	817	$0.00	$24,931	1
Bank of the West	534	$16.98	$9,066	1
Student Federal Credit Union	234	$2.00	$0	1
Grand Total	**1,322,766**		**$16,657,800**	**573**

1.2.2 College-level findings

At most colleges, a majority of students paid no fees when using sponsored accounts. Following the implementation of the Department of Education's new standards for "Cash Management," available agreements and other public information show that at least half of students using a sponsored account at most colleges were not charged any account fees during the 2016-2017 Academic Year.[27] However, the data also indicates that a subset of student accountholders pay a disproportionate share of the total fees paid by accountholders at a given college. These usage patterns are similar to those found in the broader checking account and overdraft markets.[28]

Differences in fee types may drive costs higher for the half of student accountholders that paid the vast majority of account fees. Where a college reports a low median fee and a higher average fee, the difference is likely driven by situational or penalty fees paid by a subset of accountholders. In contrast, where a college reports both a low median fee and a low average fee, these fees are likely driven by regular or reoccurring charges distributed evenly across all accountholders, such as monthly maintenance fees. While median and average fee data reported by colleges do not permit a detailed analysis of the distribution of fees across student accountholders, the Bureau's prior research suggests that cases where average account fees are significantly larger than median fees could result from accounts charging overdraft or other penalty fees. In a prior study, the Bureau determined that approximately 10 percent of younger depositors (those aged 18-25 years) with accounts at large

[27] The Bureau identified 292 colleges with more than 563,000 accountholders that report their student accountholders paid a median fee of $0 during the reporting period. The Bureau identified another 281 colleges with more than 759,000 accountholders that report their student accountholders paid a median more than $0 during the same reporting period.

[28] *See* Consumer Financial Protection Bureau, *Data Point: Checking account overdraft* (July 2014), http://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf.

banks incurred 10 or more overdrafts per year.[29] Over the study period, nearly one-in-ten consumers in the population with student accounts incurred 10 or more overdrafts per year, paying, on average, $196 in overdraft fees alone.[30] For colleges partnering with account providers that charge overdraft fees, these fees could add up to hundreds of dollars a year for students who overdraw their accounts.[31]

Colleges paid by account providers to promote accounts typically charge overdraft fees. Student accountholders at colleges paid to promote accounts paid three times more in account fees under these agreements, on average. The Bureau previously reported that account providers may pay colleges based on the number of students who open and use their account, including a fixed amount for each student or annual payments based on the total number of students using an account.[32] The Bureau and other government entities have expressed concern over the relationship between revenue sharing provisions in contracts and fees charged to student accountholders.[33] In particular, these provisions raise

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29 *See* Consumer Financial Protection Bureau, *Data Point: Checking account overdraft* at pages 8-10 (July 2014), http://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf.

30 *See* Consumer Financial Protection Bureau, *Student banking* at page 13 (Dec. 2016), https://www.consumerfinance.gov/documents/1685/201612_cfpb_StudentBankingReport2016.pdf.

31 *Id.*

32 *See, e.g.*, Consumer Financial Protection Bureau, *New students should look closely at college-sponsored bank accounts and shop around* (Aug 26, 2015), https://www.consumerfinance.gov/about-us/blog/new-students-should-look-closely-at-college-sponsored-bank-accounts-and-shop-around/; Consumer Financial Protection Bureau, *What sunshine for student financial products can show us*, (Feb 12, 2014), https://www.consumerfinance.gov/about-us/blog/what-sunshine-for-student-financial-products-can-show-us/.

33 *See, e.g.*, Consumer Financial Protection Bureau, *Prepared Remarks of Seth Frotman to the National Summit on College Financial Wellness*, Ohio State University (June 17, 2016), http://files.consumerfinance.gov/f/documents/20160617_cfpb_Frotman-OSU-Wellness-Summit-Remarks.pdf; U.S. Dep't. of Education, *Office of Inspector General, Final Management Information Report*, EDOIG/X09N0003 (Mar. 10, 2014), https://www2.ed.gov/policy/highered/reg/hearulemaking/2014/pii2-lindstrom1-oig.pdf.

questions about potential conflicts of interest, including whether revenue sharing encourages higher-fee financial products that crowd out competition from providers of accounts for which student accountholders would avoid high fees and/or accounts where all student accountholders overall would pay less in fees.[34]

The Bureau identified 116 colleges that report being paid by their account provider to promote financial accounts during the reporting period.[35] These colleges collectively received over $16.6 million in payments from account providers during this period—an average of around $35 per active account.[36] Additionally, these colleges report that the more than 482,000 students who used accounts at their schools each paid an average of $36.52 annually per account in fees during the 12-month reporting period. A review of account terms and conditions offered by account providers to students at these schools shows that, unless specifically prohibited by their college partner, most account providers charge overdraft fees.[37] In contrast, the Bureau

[34] *Id.*

[35] The Bureau notes that colleges are required to report only the total consideration paid or received by either party under their contract only for the 2016-2017 Award Year. The reported consideration by colleges in any individual award year may understate the total financial contributions received by the colleges during the lifetime of the agreement. For example, the Bureau has previously noted that many marketing agreements arrange for large financial contributions when the agreement is consummated. *See, e.g.*, Ohio State University, *Ohio State University and Huntington Bank announce $125 million partnership* (accessed Oct. 23, 2017), https://news.osu.edu/news/2012/02/02/newsitem3343/ ("Ohio State will receive $25 million from Huntington, which the university will use for academic scholarships and educational programming. Huntington is also committing $100 million in dedicated community lending and investments to support the economic development of Columbus' University District and Near East Side. The partnership includes revenue sharing, which will mean additional funds for the university to invest in the academic core as the relationship expands.").

[36] As previously noted, the reported consideration paid or received by colleges in any individual award year may understate the total financial compensation received by the colleges under the agreement, as many marketing agreements arrange for a large financial contribution when the agreement is consummated.

[37] The Bureau previously observed that, broadly, general marketing agreements do not include contract provisions expressly prohibiting certain fees charged by financial institutions to students, including overdraft fees, which the

identified another 457 colleges that received no net compensation from their account provider during the reporting period. These colleges report that the more than 839,000 students who used accounts at their schools each paid an average of $11.93 in account fees during the 12 months covered by the reporting period. A review of account terms and conditions offered by account providers at these schools shows that these account providers do not appear to charge overdraft fees.

TABLE 2: AVERAGE FEES PAID BY STUDENT ACCOUNTHOLDERS WHERE ACCOUNT PROVIDERS PAID COLLEGES TO PROMOTE ACCOUNTS

	Active accounts	Average fee per active account	Compensation paid to colleges[38]	Colleges identified with complete data
Account providers without paid promotion	839,000	$11.93	$0	457
Account providers with paid promotion	482,000	$36.52	$16,657,800	116

Figure 1 shows a college-level distribution of average costs paid by accountholders during the reporting period, where each hash mark represents data reported by an individual college.[39]

Department of Education notes "present the potential for significant costs and harm to students." Consumer Financial Protection Bureau, *Student banking* (Dec. 2016), https://www.consumerfinance.gov/documents/1685/201612_cfpb_StudentBankingReport2016.pdf.

[38] *See supra* note 25.

Additional notations display the average costs paid by accountholders aggregated by account provider. The figure shows that colleges not paid by account providers report average costs heavily concentrated around the $11.93 average fee per active account for this subgroup, ranging from $0 to $33.14. In contrast, colleges paid by account providers report a much wider range of average costs compared to the average $36.52 for this subgroup, ranging from $0 to $93.

[39] As noted earlier, the portion of students using accounts at a college can vary widely. Colleges with few student accountholders may report fee data that appears uncharacteristically high or low to other colleges using the same or a similar account provider.

FIGURE 1: AVERAGE COSTS PAID BY STUDENTS WHERE ACCOUNT PROVIDERS PROVIDED COMPENSATION TO COLLEGES BY ACCOUNT PROVIDER